

**REPORT OF THE AUDIT OF THE  
LESLIE COUNTY  
SHERIFF'S SETTLEMENT – 2014 TAXES**

**For The Period  
January 1, 2015 Through April 30, 2015**



**MIKE HARMON  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**LESLIE COUNTY**  
**SHERIFF'S SETTLEMENT – 2014 TAXES**

**For The Period**  
**January 1, 2015 Through April 30, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement – 2014 Taxes for the Leslie County Sheriff for the period January 1, 2015 through April 30, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected 2014 taxes of \$694,503 for the districts, retaining commissions of \$21,203 to operate the Sheriff's office. The Sheriff distributed 2014 taxes of \$688,507 to the districts. Refunds of \$17,450 are due to the Sheriff from the taxing districts.

**Report Comments:**

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements And Reconciliations  
2014-002 The Sheriff's Tax Settlement Was Not Accurate  
2014-003 The Incorrect Tax Rate Was Used To Calculate School Taxes  
2014-004 The Current Sheriff Recorded Tax Collections Made By The Former Sheriff

**Deposits:**

The Sheriff's deposits as of March 3, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,638,186

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Jimmy Sizemore, Leslie County Judge/Executive  
Honorable Delano Huff, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Leslie County Sheriff's Settlement - 2014 Taxes for the period January 1, 2015 through April 30, 2015 - Regulatory Basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Jimmy Sizemore, Leslie County Judge/Executive  
Honorable Delano Huff, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period January 1, 2015 through April 30, 2015 of the Leslie County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2016 on our consideration of the Leslie County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Leslie County Sheriff's internal control over financial reporting and compliance.



To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Honorable Delano Huff, Leslie County Sheriff

Members of the Leslie County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements And Reconciliations
- 2014-002 The Sheriff's Tax Settlement Was Not Accurate
- 2014-003 The Incorrect Tax Rate Was Used To Calculate School Taxes
- 2014-004 The Current Sheriff Recorded Tax Collections Made By The Former Sheriff

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon

Auditor of Public Accounts

March 17, 2016

LESLIE COUNTY  
 DELANO HUFF, SHERIFF  
SHERIFF'S SETTLEMENT – 2014 TAXES

For The Period January 1, 2015 Through April 30, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Outgoing Sheriff	\$ 81,790	\$ 130,109	\$ 285,145	\$ 65,656
Franchise Taxes	58,758	101,118	196,059	
Additional Billings	81	132	248	69
Penalties	3,152	4,984	10,959	2,404
Gross Chargeable To Sheriff	143,781	236,343	492,411	68,129
<u>Credits</u>				
Exonerations	1,097	1,712	3,816	823
Discounts	66	115	231	14
Delinquents:				
Real Estate	33,829	53,706	117,920	25,419
Tangible Personal Property	240	435	838	5,604
Franchise Taxes	51	85	160	
Total Credits	35,283	56,053	122,965	31,860
Taxes Collected	108,498	180,290	369,446	36,269
Less: Commissions *	4,611	7,662	7,389	1,541
Taxes Due	103,887	172,628	362,057	34,728
Taxes Paid	106,103	176,168	370,245	35,991
Refunds (Current and Prior Year)	349	565	1,164	165
(Refunds Due Sheriff) as of Completion of Audit	\$ (2,565)	\$ (4,105)	\$ (9,352)	\$ (1,428)

\*\*

\* Commissions:

4.25% on \$ 325,057

2% on \$ 369,446

\*\* Special Taxing Districts:

Library District \$ (1,795)

Health District (650)

Extension District (1,401)

Soil Conservation District (259)

(Refunds Due Sheriff) \$ (4,105)

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT

April 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 30, 2015  
(Continued):

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of March 3, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$1,638,186

Note 3. Property Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 9, 2015 through April 30, 2015.

Note 4. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$14,523 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 5. School Taxing District

For the 2014 tax collections, the real estate and tangible tax rates for the Leslie County School were certified incorrectly. The tax bills were printed using 0.566 instead of the approved tax rate of 0.565.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jimmy Sizemore, Leslie County Judge/Executive  
Honorable Delano Huff, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Leslie County Sheriff's Settlement - 2014 Taxes for the period January 1, 2015 through April 30, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 17, 2016. The Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Leslie County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-003 and 2014-004 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

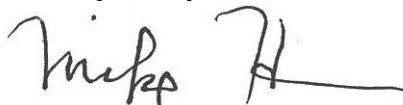
**Sheriff's Responses to Findings**

The Leslie County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The Leslie County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

March 17, 2016



## COMMENTS AND RECOMMENDATIONS



LESLIE COUNTY  
DELANO HUFF, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2015 Through April 30, 2015

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements And Reconciliations

The Sheriff's office has a lack of adequate segregation of duties over disbursements and reconciliations. These control deficiencies are present because the Sheriff's bookkeeper's duties include preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations. A proper segregation of accounting duties is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If that was not feasible, due to a limited number of staff, strong oversight over these areas should occur and involve the Sheriff or an employee not currently performing any of these functions.

We recommend the Sheriff segregate duties or implement compensating controls. If the Sheriff chooses to implement compensating controls, his oversight should be documented on the appropriate source documents. The following are examples of compensating controls the Sheriff could implement:

- The Sheriff, or his designee, can reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The Sheriff can examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

*Sheriff's Response: Do [sic] to lack of funding, the Leslie Co. Sheriff's Office can not afford to bring someone in to handle the Disbursements and Reconciliations.*

2014-002 The Sheriff's Tax Settlement Was Not Accurate

Lack of sufficient internal controls over the financial reporting process allowed multiple errors in the Sheriff's county tax settlement to go undetected and uncorrected. These errors include:

- Tax charges, credits, and distributions made by the former Sheriff were included on the current Sheriff's tax settlement. This included collections for real estate, tangible, franchise and additional billings. The former Sheriff collected 2014 taxes during November and December 2014. The current Sheriff collected the remaining 2014 taxes from January through July 2015. Instead of preparing a separate settlement for the current Sheriff's collection period, the county settlement preparer combined collections from November 2014 through July 2015.
- Franchise tax collections for May, June, and July 2015, totaling \$213,741 were included on the county settlement. The current Sheriff's reporting period for 2014 taxes ended April 30, 2015; therefore, all subsequent collections should not have been included on the 2014 tax settlement. Collections for May, June, and July 2015 should have been included on the 2015 county settlement.
- The county settlement did not include delinquent franchise taxes of \$295 as either a charge or credit.
- School commissions were determined based on monthly reports, which incorrectly calculated commissions at four percent. However, the actual school commission rate for the current Sheriff's tax collection period was two percent.
- Exonerations issued during the former Sheriff's term were included.

LESLIE COUNTY  
DELANO HUFF, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2015 Through April 30, 2015  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued):

2014-002 The Sheriff's Tax Settlement Was Not Accurate (Continued):

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Effective internal controls over the financial reporting processes are essential to ensure that financial reports are accurate. Controls such as a thorough review of the annual tax settlement that include tracing amounts to source documentation, recalculation of those amounts, and comparing taxes collected per the settlement to the taxes collected on the monthly reports would have strengthened internal controls over financial reporting and reduced the chances of misstatements going undetected.

We recommend the Sheriff implement internal controls over the review of the annual tax settlement by tracing amounts to source documentation, recalculating commission amounts, and comparing taxes collected per settlement to taxes collected per monthly reports.

*Sheriff's Response: We will take the proper steps to insure [sic] that the settlements going forward are correct.*

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCIES:

2014-003 The Incorrect Tax Rate Was Used To Calculate School Taxes

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The incorrect tax rate was used to calculate school taxes. The correct rate set by the Leslie County Board of Education was \$0.565 per \$100 of assessment. However, the tax bills reflected an incorrect rate of \$0.566 per \$100 of assessment. Although it is the responsibility of the County Clerk to prepare the tax bills, the Sheriff's office did not implement internal controls to verify tax bills reflected the correct rates so that taxes were accurately calculated.

As a result, taxpayers were erroneously overcharged 0.001 cents, per \$100 of assessment. Effective internal controls should be designed to ensure amounts collected are accurate. We recommend the Sheriff's office implement controls to verify tax bills reflect the correct tax rates.

*Sheriff's Response: For future Tax years we will take the steps to assure that all rates are correct.*

2014-004 The Current Sheriff Recorded Tax Collections Made By The Former Sheriff

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On April 27, 2015, the current Sheriff's office recorded payment for 37 bills totaling \$12,604 in the tax collection software. However, the green manual receipts for these bills were marked paid during the former Sheriff's administration in November and December 2014. The current Sheriff did not collect monies or make deposits for these bills. These bills were included on the current Sheriff's April 2015 monthly tax report and distributed to the taxing districts. As a result, the current Sheriff did not have sufficient monies to pay overpayments due to taxpayers or commissions due to his official fee account. Further, tax collections are due from the districts for these overpayments. Effective internal controls require that tax collections only be recorded for monies received. The Sheriff should only mark tax bills paid when collection has occurred, during the current tax period. We recommend the Sheriff ensure bills are only marked paid when collections are made. This will prevent future overpayments to taxing districts.

*Sheriff's Response: We are working with the Former sheriff to correct all mistakes.*

